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SUBJECT: MATTEL IN CHINA: THE GOLD STANDARD IN TOY MANUFACTURE  
ENCOUNTERS A PROTOCOL BREAKDOWN

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11. (SBU) Summary: Mattel officials at the company's Dongguan factory - about an hour south of Guangzhou - told Ambassador Alan Holmer, the Special Envoy to China for the Strategic Economic Dialogue, that a new vendor used fake testing certificates to surreptitiously introduce lead paint into the production line of Fisher Price toys had had been recalled from a different Mattel plant. The Chinese government, in the view of these managers, is simply not strong enough to prevent people from cutting corners to save money; the government needs independent institutes rather than local labs to perform the tests. The government is often tempted to collude with dishonest merchants, sometimes for money, or just as often to make sure that firms can continue to operate to save jobs. Senior leadership understands that "Made in China" as a brand has been harmed, but local leaders remain less willing to sacrifice the short term gain realized by dishonest practices. End summary.

#### Quality Assurance and Safety Protocols Failed

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12. (SBU) What happens when you play by the rules, have a rigorous quality assurance system, and constantly evaluate your test protocols to ensure product integrity? Well, according to Mattel Asia Pacific Sourcing Senior Vice President David F. Lewis, you end up like Mattel, i.e., forced to recall nearly a million Fisher Price toys. In his August 3rd meeting at Mattel's factory plant in Dongguan with Special Envoy to China for the Strategic Economic Dialogue Alan Holmer, Lewis was candid about the circumstances surrounding the product safety snafu. In response to Ambassador Holmer's questions about the recent incident, Lewis answered that the usual Mattel contractor for the toys made in the Guangyao plant (north of Guangzhou) had changed paint vendors. The new vendor gave the contractor a fake certificate documenting that the paint had been tested - and passed - by an approved laboratory. For this particular contractor, the bait-and-switch was a real eye opener; it had had a one hundred percent Quality Assurance (QA) up to this point. Although the actual date that the paint was used on the toys was April 19, the problem was only discovered six weeks later when a French retail customer requested a test of a toy at a Hong Kong laboratory. Lewis said that as soon as Mattel learned of the problem, it stopped shipment of the Fisher Price toys, notified the Consumer Product Safety Commission, and spent the week before the announcement quietly informing its retailers of the affected toys' Stock Keep Unit number. (An SKU number is an identifier that allows merchants to systematically track products and services offered to customers.) The stoppage of shipment meant that only 600 twenty-foot containers out of the normal 900/week were shipped at the time.

13. (SBU) At this point, Mattel's investigation is ongoing, Lewis said. It is not clear whether the contractor will be penalized.

However, the vendor that supplied the fake certificate has shut down his business, cleared out his factory and disappeared. This is not an uncommon phenomenon and whether the vendor will be found and held accountable is problematic. Lewis seemed somewhat bemused when the Shenzhen Customs officials breathed a sigh of relief that the dishonest vendor was not in their territory; in other words, it was now someone else's problem. What Mattel needs to do now, Lewis said, is review its QA system and ensure that this does not happen again. Ironically, the recall occurred just one week after a very favorable July 26 article in the New York Times hailing Mattel as the "gold standard" for the toy industry in China.

#### Chinese Government Unable to Exercise Testing Control

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14. (SBU) The crux of the issue, Lewis went on, is that the Chinese government simply is not strong enough to prevent people from cutting corners to save money. What the government needs is independent testing institutes rather than local labs which might be tempted to collude with dishonest merchants. Indeed, all too often, officials look the other way for money or to ensure that firms stay in business and local jobs remain. While senior leadership understands that "Made in China" as a brand has been harmed, it's the local leaders that remain recalcitrant about enforcing standards. The short term gain realized by dishonest practices is just too enticing.

15. (SBU) For a company with \$5.6 billion sales worldwide - and with 70 percent of those sales based on products made in China - Mattel recognizes that it has to be proactive in cleaning house. As a result it is looking to make common cause with the International Council of Toy Industries to develop standards to be used industry-wide.

GUANGZHOU 00000887 002 OF 002

16. (U) This cable has been cleared by Ambassador Holmer's party.